

Message Text

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TAGS: EFIN, EAID, BR

SUBJECT: BILATERAL WITH BRAZIL AT THE IDB MEETING

1. AT BRAZILIAN REQUEST U.S. DELEGATION HEAD CARSWELL AND NACHMANOFF MET IN VANCOUVER ON APRIL 17 WITH FINANCE MONISTER MARIO SIMONSEN, CENTRAL BANK PRESIDENT PAULO LIRA, MR. ARY PINTO AND MR. FERNAO BRACHER. PURPOSE OF THE MEETING WAS TO DISCUSS IDB ISSUES AND THE COMPTROLLER OF THE CURRENCY RULING.

2. IDB ISSUES - FINANCE MINISTER POINTED OUT THAT THE IDB TARGET OF 7 PERCENT REAL ANNUAL INCREASE IN IDB LENDING WAS REASONABLE BUT HOW TO RECONCILE THIS WITH THE CURRENT REPLENISHMENT EXERCISE WAS ANOTHER MATTER. HE ALSO WAS LIMITED OFFICIAL USE

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AWARE OF THE PROBLEMS WITH U.S. CONGRESS AND NOTED THE IMPORTANCE OF CLOSE CONSULTATIONS.

3. ON FSO FINANCE MINISTER OBSERVED THAT IT SHOULD BE FUNNELLED TOWARD INVENTIVE PROGRAMS (E.G. NUTRITIONAL PROGRAMS) AND THAT FUNDS SHOULD BE DIRECTED INTO POOREST COUNTRIES. FURTHERMORE BRAZIL HAS NOT USED FSO SINCE

1975 AND HAS EFFECTIVELY RESIGNED FROM USING THESE CREDITS. HOWEVER, BRAZIL DOES REQUIRE CONTINUED ACCESS TO FUNDS FROM ORDINARY CAPITAL WINDOWS OF THE BANKS.

4. IN RESPONSE TO U.S. SUGGESTION THAT IDB REPLENISHMENT BE IN CONVERTIBLE CURRENCIES SIMONSEN AGREED IN PRINCIPLE. BRACHER OBSERVED THAT IT DID NOT MAKE SENSE FOR A COUNTRY AT BRAZIL'S STAGE OF ECONOMIC DEVELOPMENT TO CONTRIBUTE SUBSTANTIAL AMOUNTS OF CONVERTIBLE CURRENCY TO THE FSO, BUT SIMONSEN AGREED TO STUDY THIS ISSUE.

5. U.S. DELEGATION SAID THAT IT HAD BEEN WORKING CLOSELY WITH CONGRESS ON REPLENISHMENT QUESTIONS AND WOULD CONTINUE TO DO SO. U.S. HOPED TO BE ABLE TO TAKE A POSITION ON THE IDB REPLENISHMENT LEVEL WITHIN THE TIME SCHEDULE SET BY THE GOVERNORS (I.E. BY END OF SEPTEMBER). GENERAL APPROACH IS GREATER EMPHASIS ON ORDINARY CAPITAL AND LESS ON FSO WITH INCREASED FOCUS ON POOREST COUNTRIES AND POOREST SECTORS IN OTHER COUNTRIES.

6. ON PROPOSED COMPTROLLER OF CURRENCY RULING REGARDING 10 PERCENT LIMIT ON BANK LENDING TO SINGLE BORROWERS, BRAZILIAN DELEGATION RAISED QUESTION OF WHAT CONSTITUTES RESOURCES (INCOME) FOR BORROWING ENTITIES AND SUGGESTED THAT THIS MAY BE DIFFICULT TO DEFINE IN SOME CASES. THEY ALSO POINTED OUT THAT IT IS NOT REASONABLE TO PUT SAME LIMITED OFFICIAL USE

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10 PERCENT LIMIT ON SOVEREIGN COUNTRIES AS ON PRIVATE COMPANIES. ADDITIONALLY RIGID APPLICATION OF RULING WOULD REQUIRE AN IMPOSSIBLE AMOUNT OF INVESTIGATION. FURTHERMORE, TIME REQUIRED TO PUT TOGETHER A LOAN WAS IMPORTANT FOR BRAZIL SINCE THE COUNTRY BORROWS ON A PROJECT BASIS, I.E., SMALL AMOUNTS AT A TIME, AND RULING COULD INCREASE TIME REQUIRED TO PULL A LOAN SYNDICATE TOGETHER.

7. CARSWELL PRESENTED A BRIEF HISTORY OF FACTORS LEADING TO THE RULING AND EXPLAINED THAT STATUTE IS CLEAR BUT IT HAS NOT BEEN APPLIED CONSISTENTLY AS AN INCREASING NUMBER OF U.S. REGIONAL BANKS GOT INTO INTERNATIONAL LENDING. EXAMINERS IN DIFFERENT AREAS HAVE APPLIED DIFFERENT RULES AND THE COMPTROLLERS OFFICE DECIDED THAT SOMETHING MUST BE DONE. HOWEVER, DECISION WAS NOT RELATED TO PARTICULAR COUNTRIES BUT RATHER REGIONAL BANK PRACTICES. CARSWELL RECOGNIZED POTENTIAL DIFFICULTY IN APPLYING REGULATIONS TO INDIVIDUAL COUNTRIES GIVEN WIDE SPECTRUM OF ECONOMIC SYSTEMS, AND NOTED COMPTROLLER WAS ASSESSING COMMENTS OF VARIOUS INTERESTED PARTIES AND WOULD TAKE THEM INTO ACCOUNT IN IMPLEMENTATION OF RULING. FURTHER-

MORE, RULING SHOULD NOT CAUSE SIGNIFICANT PROBLEMS FOR BRAZIL. USE OF LEAD BANK CAN FACILITATE SYNDICATIONS, EVEN AMONG A LARGER NUMBER OF BANKS.

8. BRAZILIAN DELEGATION REAFFIRMED ITS DESIRE THAT RESOURCE INFLOWS NOT BE HINDERED BY THE RULING SINCE THE ACCESS TO THE INTERNATIONAL PRIVATE CAPITAL MARKET WAS CRUCIAL FOR THE COUNTRY. HOWEVER, THEY FELT REASSURED BY CARSWELL'S COMMENTS. VANCE

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